Social enterprise: is there anything in this fuzzy concept?

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February 2017

1 Introduction

People and social movements around the world understand the term *social enterprise* in different ways. Even just a handful of conversations with practitioners and researchers in this field will make this evident. In very general terms, two broad social enterprise traditions may arguably be identified (Ridley-Duff & Bull, 2011). The first one is associated with the primacy of the social purpose and contributing to social good. Some historical examples could be institutions providing hospital services to those in need, often backed by religious authorities. We can think of contemporary charities or voluntary sector organisations as examples of this strand. As elaborated in Defourny & Nyssens (2006), these types of institutions negate the search for profit and instead direct activities and any surplus to the aid of external beneficiaries. On the other hand, a second strand of social enterprises broadly encompasses organisations placing forms of mutuality and reciprocity at the centre of their activities. Examples include cooperative enterprises or mutual savings and loan associations. In contrast to the previous strand, these do not deny profit, but rather aim to achieve more than profit: generating a surplus through alternative social relations of production. Also, the benefits of this type of enterprise typically accrue to the internal members of the organisation rather than external beneficiaries (Defourny & Nyssens, 2006).

The above categorisation is only one of many that can and have been made in the literature. What is evident, however, is that the institutional landscape identified by the term *social enterprise* is very heterogeneous. As a consequence, definitions of what constitutes a social enterprise are equally varied. Such lack of a shared understanding poses obstacles to the development of properly targeted policies (Peattie & Morley, 2008). It also hampers the advancement of research and knowledge, as clarity on what constitutes the object of study is a necessary precondition for effective academic exchange. Finally, it limits the scope for standardised data collection, and hence empirical research on the subject.

Theorising the nature of social enterprise is further complicated by the ultimately subjective nature of the definitions put forward, which makes them vulnerable to the influence of the power relations within which they are formulated (Dey & Steyaert, 2012). For example, the boundaries of what is and is not perceived to be a social enterprise across time and space may depend on factors such as the opinion of the most prominent figures, the availability of philanthropic funding or the compatibility with the prevailing political authority.

This paper builds on existing literature relating to the nature of social enterprise. In contrast to previous work however, it attempts to shift the focus from the question of what *is* a social enterprise to what it means to *be* a social enterprise. Indeed, a dictionary entry for the term *definition* highlights two distinct semantic areas: the '*specification of the essential properties of something*, or *of the criteria which uniquely identify it*' (Dictionaries, 2011). Research to date into the definition of social enterprise has to a large extent focussed on latter: identifying criteria which trace the boundaries of the sector. In contrast, this paper is motivated by the belief that what would be more interesting, particularly if one values the achievement of social impact or change, is to identify those essential properties that influence the nature, behaviour, objectives or achievements of social enterprises, thereby substantiating their transformative promise. Indeed, in the absence of such ontological foundations, it is not clear what, if anything, it would mean to *be* a social enterprise.

The paper tackles this task in two steps. After presenting the framework used in this paper to think about the firm in Section 2, Section 3 explores whether social enterprises can be seen as sharing a common structure that defines them in *institutional* terms, and that would therefore exert a common influence on their behaviour. To do so, we conduct a brief review of existing theoretical work concerned with the definition of social enterprises on the basis of their institutional features. Following the advances made in this strand of the literature, we quickly conclude that it is not possible to conceptualise a core institutional set-up that applies to all social enterprises. Instead, the literature has preferred to characterise social enterprises as exhibiting one or more of a set of institutional features commonly, though not universally, found among social enterprises. Attempting a succinct yet comprehensive summary of the views expressed in this literature, we identify the following as the three most important features that, where present to any extent, are seen as distinguishing a social from a conventional enterprise: a) a degree of inclusive, participatory or democratic governance b) conditions or limitations on the distribution and/or reinvestment of surplus and c) a *social* business purpose.

The second step in our approach asks whether, despite their institutional heterogeneity, these firms may nevertheless share a set of common behaviours. If this were the case, we could argue that social enterprises, while not defined *institutionally*, could still be defined in *behavioural* terms. We attempt to answer this question by surveying the implications of each of the three above-mentioned institutional features on the nature and behaviour of firms. Importantly, these features have been studied to a fair degree in the fields of economics and management, though without a specific focus on social enterprises. In Section 4, we therefore conduct a critical review of these literatures to highlight the most relevant implications for social enterprise.[1] This two-pronged approach rests on the view that if social enterprises can be set apart either on the basis of how they are 'wired' institutionally or how we can expect them to behave empirically, then their categorisation will be a meaningful one.

As we discuss in Section 5, the outcome of this exercise is, however, that social enterprises do not share any common institutional features, nor do we have reason to expect that characteristics commonly found among social enterprises should determine any common behavioural patterns. We therefore question whether the notion of *social enterprise* does in fact convey any substantive meaning.

2 Conceptualising the (conventional) firm

Before proceeding, it is worth outlining the way in which we are thinking about the firm.[2] We see the firm as an entity whose boundaries are defined by the replacement of market negotiations with centralised authority (Coase, 1937; Milgrom & Roberts, 1987), and where such authority resides in an ultimate control group (Dow, 2002). Note that such authority does not necessarily imply the responsibility to take all decisions within the firm. Indeed, responsibility will often be delegated. However, in as far as controllers of the firm have the authority to remove another patron of the firm against their will, they will hold the ultimate control of the firm. Leveraging

[1]These literatures are vast, and a comprehensive overview is beyond the scope of this paper. Instead, our focus is limited to highlighting the relevant elements within these strands of work necessary to construct the argument of the paper.

[2]See Dow (2003) for a more extended discussion

on this authority, the control group can also hope to impose a coherent plan to the operations of the firm.[3]

The group holding ultimate authority will be often referred to as *owning* the firm, though this statement is somewhat loose. Indeed, while workers clearly form part of the firm, they cannot be bought and are free to leave following a change of ownership. Equally, one might own the assets entering the firm's production process, but that does not imply owning the firm. Following Dow (2003) and Hansmann (2008), we adopt a more precise interpretation of *ownership* as shorthand for the ownership of the authority to control the firm and the right to appropriate the firm's residual earnings.[4]

Hansmann (2008) provides a helpful framework to think about why certain ownership arrangements arise, and how they might affect firm behaviour. Under this framework, the firm is seen as holding implicit or explicit contractual relations with a number of *patrons*. Examples of these include capital suppliers, workers, and consumers. One of these patrons will usually take the controlling role in the firm, and which one will do so depends on the balance of contracting and ownership costs it faces. Specifically, it will depend on the potential gain they can obtain by replacing costs of contracting with costs of ownership by becoming owners of the firm. Importantly some patrons are better positioned than others to keep the latter costs low.

Several examples of contracting costs have been studied in the literature. The seminal work by Coase (1937) emphasised the relevance of transaction costs to contracting. Asymmetric information can make contracting more costly if contractual commitments are difficult to observe or verify. Along similar lines, relation-specific investments expose parties to the threat of hold-up (Williamson, 1985). Hansmann (2008) further discusses the specific risks associated with long-term contracting and the scope to gain market power through economies of scale and/or coalitions as examples of possible reasons to reduce the extent of contracting. At the same time, ownership cost are equally varied. These include, most notably, the incentive costs of monitoring managers (Berle & Means, 1932; Jensen & Meckling, 1976), the bearing of business risk and the cost of (collective) decision-making.

We can use this framework to structure our thinking on what constitutes a *conventional firm* - the benchmark arrangement against which we will compare social enterprises to. We define the conventional firm as one in which the ultimate control group consists of (a subset of) the providers of financial capital. This group contracts with labour to obtain their input in production. It also engages with consumers through the market. This relationship is not contracted explicitly but may still be subject to implicit or explicit norms of a cultural or regulatory nature. Labour is typically engaged for a fixed remuneration, although some form of individual or company performance-related pay may be in place. Regardless of pay arrangements however, the investor-controllers are the residual claimants. Finally, investor-controllers are primarily interested in financial return, and will seek to direct the firm so as to maximise their residual claims.[5]

Despite being only a small set of characteristics, they are sufficiently abstract that they can encompass a wide variety of firms. Indeed, these features are shared by firms ranging from the

[3] That is not to say that they will succeed in doing so. The difficulties shareholders have in controlling managers are a case in point (Berle & Means, 1932). However, the presence of obstacles to control does not imply the absence of control.

[4] In the vast majority of cases, those who wield control also have the power to appropriate any residual earnings. Non-profits are a notable exception to this, as we discuss in Section 4.2.

[5] We note that there is a wide theoretical literature on firm objectives, some of which departs from the narrow aim of profit maximisation. For example, from a *resource-based view* of the firm, the pursuit of competitive advantage may lead the firm to seek, for example, growth or mergers, possibly at the expense of short-run profits (Wernerfelt, 1984; Peteraf, 1993). However, the fundamental point we wish to make is that, despite the variety of possible strategies conventional firms can undertake, their ultimate aim is that of financial reward rather than the pursuit of objectives outside the financial domain.

local corner shop to a large multinational. That is not to say that these firms are the same, or even that these characteristics necessarily influence such heterogeneous firms to the same extent. However, they do define a common structure shared by all such firms, and one we can expect to determine common patterns in the firm's behaviour. In light of this, the conceptualisation of the *conventional firm* is therefore substantively meaningful. Indeed, in Section 3, we discuss whether the term *social enterprise* is underpinned by an equivalent common structure that defines it in institutional terms.

The prominence of investor-owned firms provides important indications on the relative importance of each cost of contracting and ownership. It suggests capital providers face the highest asymmetric information, and have the greatest incentive to eliminate the risk that the firm might behave opportunistically towards them by becoming owners (Klein et al., 1978; Williamson, 1985). At the same time, investor-owned firms face lower collective decision costs of ownership, as the interests of capital suppliers are relatively homogeneous (Jensen & Meckling, 1976). Costs of monitoring managers, while relevant, are therefore likely to be secondary compared to the above two. Far from being inevitable, therefore, conventional ownership arrangements prevailing among most firms are an empirical phenomenon that emerges as the response to incentive conditions that are widespread in modern economies.

Importantly, however, not all firms feature these arrangements. Indeed, as we discuss in Section 4, variants of *social enterprise* can be conceptualised in terms of how they depart from the these conventional arrangements. By doing so, we can gain some insight into how such departures may affect the nature of such enterprises. This latter exercise is functional to the second objective of this paper: to explore whether social enterprises exhibit common behaviours. Specifically, even if the concept of social enterprise does not imply a universal underlying structure, but at best a heterogeneity of departures from the structure of a conventional firm, it could be that these all lead to common implications on the behaviour of the firm. If this were the case, the term *social enterprise*, even if not unified on a institutional level, may still be deemed meaningful in terms of the behaviour it implies.

3 The social enterprise as an institution

A plethora of types of firms identify with the term *social enterprise*. Among these, we can find non-profits, producer and consumer cooperatives, employee-owned firms, mutuals, charities, voluntary sector organisations, just to mention a few. To make matters more confusing, some firms within the social economy refer to themselves as simply *social enterprises*. Over the course of almost two decades of research, substantial effort has been made to abstract a generalised conceptualisation of social enterprise that could bear some relation to the entire variety of firm types observed in practice. This section draws on a selection of contributions from this literature, and the review in Ridley-Duff & Bull (2011), to establish what has been identified as the minimal common set of institutional characteristics defining social enterprises.

The literature offers several examples of definitions of social enterprise relying on the presence of key institutional characteristics. However, even just a brief review is sufficient to conclude that none succeed in being fully representative of the heterogeneity of real-world social enterprises. Indeed, a refinement of one's characterisation of the sector often comes at the cost of excluding other parts of the sector. For example, Spreckley (1981) argues:

> *An enterprise that is owned by those who work in it ..., is governed by registered social as well as commercial aims and objectives and run co-operatively may be termed a social enterprise* (Spreckley, 1981, p. 3).

Under this view, mission-driven non-profits such as charities would not constitute social enterprises as they are not necessarily governed democratically and are not usually owned by the workers. Similarly, the UK Government definition reads:

> *A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners* (DTI, 2002, p. 3).

In this case, therefore, firms that claim to be social in light of their participatory governance would be excluded. At the same time, attempts to capture the full heterogeneity of the sector can lead to complex, and arguably unworkable, definitions. For example, the approach taken in Defourny (2001) includes as many as nine ideal-typical characteristics.

Confronted by the significant heterogeneity within the social economy, some authors ultimately argue that the only sufficiently universal characteristic shared by social enterprises is the primacy of social aims.

> *If we seek characteristics that actually define, rather than describe or typify, social enterprises, the only clearly defining characteristics are (a) the primacy of social aims and (b) that the primary activity involves trading goods and services. ... In short it concerns the use of business means to pursue social ends.* (Peattie & Morley, 2008, p. 8).

To put it even more directly:

> *A social enterprise is any business venture created for a social purpose* (Alter, 2007).

However, as we discuss in Section 4.3, it is not clear whether having social aims can serve a sufficiently sharp definition of the phenomenon. More fundamentally though, even this very broad definition may still not be sufficiently inclusive. For example, it would exclude firms such as cooperatives, which see themselves as social in light of the socialisation and democratisation of production and labour relations (Rothschild, 2009).

It is perhaps as a response to the limitations of such static and monolithic definitions that the social enterprise has increasingly been conceived not as a specific institutional form but rather as a spectrum of possible options, spanning different sectors and taking on a plurality of legal forms or institutional arrangements (Nyssens, 2006). The 'defining characteristic', it is argued, is actually a combination of possible characteristics. The European research network EMES's most recent version of their characterisation of social enterprise is an example of this approach (Defourny & Nyssens, 2012). Instead of offering a concise definition, it lists a set of metrics and features to guide the analysis of the phenomenon:

> *Such indicators were never intended to represent the set of conditions that an organisation should meet in order to qualify as a social enterprise. [Instead], they constitute a tool, somewhat analogous to a compass, which helps analysts locate the position of the observed entities relative to one another and eventually identify subsets of social enterprises they want to study more deeply.* (Defourny & Nyssens, 2012, p. 8).

The chosen indicators include: whether the firm carries out a continuous productive activity, bearing its economic risk and making use of at least some paid work; whether the activity is launched by citizens, whether it is to the benefit of the community and whether it has only limited profit distribution; and whether this firm is governed autonomously, in a participatory manner, with decision making not based on capital ownership. Different combinations of these features lead to different variants of social enterprise, but all can lay claim to this name.

We can draw some conclusions from this brief summary. Firstly, despite large research efforts, no unitary overarching conceptualisation of the social enterprise has successfully emerged as a consensus view among researchers and practitioners. The reason for this failure appears to ultimately lie in the heterogeneity firms identifying as *social enterprises*. In other words, a consensus view on the defining features of social enterprises is lacking because, quite simply, there are no such common institutional features. Contrary to the concept of the *conventional firm*, therefore, it is not possible to construct a corresponding *institutional* abstraction for the concept of *social enterprise*.

Instead, academic thinking around the phenomenon appears to have abandoned the ambition of a unitary definition of social enterprise, in favour of enumerating characteristics typically or frequently found among these firms. In line with this approach, we put forward the following as our attempt at a succinct yet comprehensive synthesis of the views expressed in this literature. Social enterprises are understood as any firm that exhibits, to any extent, any of the following three main features:

- a degree of inclusive, participatory or democratic governance;
- conditions or limitations on the distribution and/or reinvestment of surplus; and
- a *social* business purpose.

To the extent that social enterprises can be characterised through an institutional lens, therefore, they can at best be thought of firms manifesting one or more of a set of commonly occurring, but not universal, features.

4 The social enterprise as shared behaviour

Despite the lack of institutional features common to all social enterprises, the presence of a limited set of typical characteristics may nevertheless lead to common implications in terms of the firm's behaviour. If this were the case, one could arguably establish a *behavioural* rather than institutional meaning to the concept of social enterprise. In this section, we therefore proceed to analyse the nature and implications of each of the three most commonly occurring characteristics identified in Section 3. In each case, we present how each feature can be framed within our generic conceptualisation of the firm (see Section 2), and discuss the implications this may have on the behaviour and objectives of the firm, drawing on insights from the economics and management literature. We place particular emphasis on the extent to which each feature can lead the firm to pursue objectives that are not limited to, or indeed depart from, the conventional pursuit of financial return.

4.1 The control dimension

We start by considering the behavioural implications for social enterprises of having an element of inclusive, participatory or democratic governance in place. This description is intentionally broad because of the sheer variety of arrangements in place among such firms. These can range from fairly light touch features, such as the presence of a customer representative on the board of directors, to full blown democratic processes, such as cooperatives where each member has one vote. Despite this variety, we can think of such arrangements as affecting who and to what extent is in *control* of the firm. There are two main mechanisms through which this can influence the firm's behaviour. Firstly, different controlling patrons may face a different balance of contracting and ownership cost conditions, which can affect the way it chooses to go about running the firm and the nature of the relationships it can establish with other patrons. Secondly, the distinct nature of the control group preferences may directly affect the objectives pursued by the firm. In what follows, we consider scenarios where control is fully in the hands of a patron other than capital suppliers. This should nevertheless shed some light on hybrid arrangements as well.

4.1.1 Control by labour

The firm's workers are a possible alternative patron, with important consequences for the nature of the firm. A number of asymmetries between labour-managed and conventional firms arise from the fundamental fact that capital is alienable while labour is not (see Dow, 2003, for an excellent and extensive review). Capital can be owned as a stock (and not only as a flow); its ownership can be transferred; and it can be diversified across many different uses. On the other hand, labour cannot be owned or transferred but only rented; and there are severe human and geographical limitations to individuals apportioning their labour across multiple uses.

The most important implication of this asymmetry is that the birth of labour managed firms will in fact be rare, and only occur in contexts where suitable conditions prevail.[6] However, of most interest here, is the effect of labour control on the behaviour of such firms that do manage to be created. These will primarily arise from the typical asymmetries in the composition and characteristics of the worker control group compared to conventional control by capital suppliers.

Firstly, labour's specific position within the firm may imply it holds different preferences from those typically held by capital suppliers. This will affect the objectives pursued by the firm, possibly in the direction of striving for 'more than profit'. Some such preferences have been studied sufficiently to be able talk about stylised facts of labour-management. These include a revealed preference for employment over wage stability (Steinherr & Thisse, 1979; Pencavel & Craig, 1994; Pencavel et al., 2006; Burdn & Dean, 2009) and a more compressed wage distribution in labour-managed firms. More generally, labour's position *in situ* in the firm means it will consider the importance of public goods in the workplace when in control. For example, the controlling workers may, in principle, be able to set their optimal balance between, say, income maximisation and safety in the workplace. A less chartered extension to this behaviour is the extent to which management by workers can lead to the consideration of externalities outside the firm and global public goods. For example, workers residing in the locality might incorporate externalities affecting the local neighbourhood in their decision making. For example, Putterman (1993) suggests such firms will evaluate the possibility of a plant closure in a substantially different way compared to a conventional firm. Similarly, worker-controllers may, for example, place weight on the firm's impact on local pollution.

The ability of labour-managed firms to incorporate objectives beyond profit (or balancing these against profits), however, relies on the worker control group reaching agreement on these additional objectives. This is not a trivial endeavour. Indeed, in contrast to our benchmark case of the relatively homogeneous interests of capital suppliers (Jensen & Meckling, 1976), worker

[6] Perhaps the key reason for the rarity of labour managed firms is that most productive activities require committing a stock of capital now to achieve a flow of repayments in the future. Where a labour-managed firm obtains this from non-controlling suppliers, it faces an inter-temporal commitment problem whereby the controlling workers will be tempted, ex-post, to deplete this stock and renege on repayment. Capital suppliers may be only partially protected by collateral or threat of retaliation if collateral is investment-specific and interactions infrequent. This problem would be further aggravated by asymmetric information (so that capital suppliers have difficulty discerning entrepreneurial failure from intentional default) and worker risk-aversion (which implies workers will not have invested any capital of their own). Such vulnerability of capital suppliers can further explain why existing labour managed firms can face difficulties accessing finance.

control groups are likely to be larger and have more heterogeneous preferences.[7] Constraints to the labour input of a single worker mean that labour managed firms must expand the size of the control group to achieve economies of scale. While workers could, in principle, sort into firms based on their preferences and be homogenous within firms, this is unlikely to be the case when the number of firms is lower than the types of workers (Jensen & Meckling, 1979). Similarly, physical and geographical constraints to the deployment of labour input means workers cannot diversify their allocation across firms.

The heterogeneity of labour preferences will therefore lead to higher collective decision-making costs. Indeed, the rarity of labour-managed firms suggests these weigh heavily. In an effort to minimise such costs, labour-managed firms will often seek to promote preference homogeneity, for example by limiting membership to socially compatible individuals, and to limit and streamline the democratic process, for example via extensive delegation or by introducing simplified rules (Hansmann, 1996; Benham & Keefer, 1991). Agreement on preferences over externalities and public goods may only turn out to be feasible, therefore, if heterogeneity in these preferences is sufficiently low or if highly effective governance features are in place, both of which may be a non-trivial assumptions. If successful, however, there may be net efficiency gains (Drze, 1976; Drze & Hagen, 1978), much like the case where workers express their voice through unions (Freeman, 1976).

A second implication of labour's physical presence in the workplace is that it will tend to have access to privileged insider information relative to other patrons. This may contribute to reducing the cost of monitoring managers. Furthermore, when in control, workers may position themselves more collaboratively towards managers (who are ultimately chosen by them), thereby reducing the costs to this often conflictual relationship. For example, workers may be more willing to provide information upwards, reducing informational asymmetries between workers and management and facilitating decisions, for example on re-organisation. Finally, if residual claims are shared among workers, reciprocal monitoring increases work effort (Freeman et al., 2010; Dube & Freeman, 2010; Craig et al., 1995).

Access to such privileged information is perhaps the main productivity advantage of labour managed firms. Setting aside the issue of firm formation, their subsequent viability and outcomes will therefore depend on whether this advantage offsets the increased collective-decision costs. Empirical evidence indicates that where these firms exist, they match if not exceed productivity in conventional firms (Craig et al., 1995; Fakhfakh et al., 2011). Furthermore, the interaction between information access and decision making quality may explain part of this. Indeed, it is not clear whether collective-decision costs in labour-managed firms arise from the complexity of the democratic decision-making process or in the quality of the decisions ultimately taken. It is entirely possible that a more complex decision-making process may nevertheless lead to better decisions if it can draw on a richer information set. Important insights into this may be found by applying political-type analyses to decision-making processes within firms (Hansmann, 2008). For example, lab experiments in Mellizo et al. (2011) find that when individuals were allowed to design their own payment mechanism, their subsequent work effort increased. As reviewed in Charness & Sutter (2012), there is evidence that groups make better self-interested decisions.

Overall, this discussion helps shed some light on how social enterprises wholly or partly controlled by workers may exhibit behaviour that departs from that of conventional firms (for a broader review of the literature on cooperatives and labour-managed firm,see Dow, 2003; Pencavel, 2013). Control by labour may have the potential to drive a firm to strive for 'more

[7] In the case of a large publicly traded firm, shareholders are likely to be more numerous than workers. However, in smaller privately controlled firms the opposite is likely to be the case. This latter group of firms is typically more numerous, though likely to account for a smaller share of total economic activity.

than profit', by complementing profit-maximisation with broader workplace considerations, and perhaps the relationship with the local community and the firm's impact more globally. To do so in a viable and sustainable way, however, the firm will need to address the challenge posed by the likely heterogeneity in worker preferences, and be able to manage potentially richer but more complex decision-making processes.

4.1.2 Control by consumers

An alternative arrangement is for consumers to control the firm. Indeed, the involvement of beneficiaries in management is often in place in social enterprises. Similarly to the case of labour, control by consumers can influence the firm's objectives to the extent that the consumer-controllers will seek to balance their interests as both residual claimants and consumers. Again, this may lead the firm towards striving for objectives beyond profit.

A first distinguishing feature of this arrangement is the fact that, when in control, consumers will be in a better position to observe and affect product quality to ensure it matches their needs. This will be the case both because their control position means they will be involved in the production process and because of the repeated nature of the purchase (if not by the same individual, by like-minded individuals). As such, this arrangement will be most attractive in the presence of asymmetric information in relation to product quality.[8] For example, Hansmann (1996) discusses the early days of fertiliser, where buyers formed consumer cooperatives as a way of being sure of the contents of the product they were purchasing. Consumer control should therefore allow consumers to push towards the provision of higher levels of product quality. Importantly, even if it wished to do so, a conventional firm would struggle to offer these levels of quality as this would not be perceived as credible by consumers in the context of asymmetric information. Similarly, beneficiary influence in the production process may also help reveal beneficiaries' needs in contexts where these are otherwise difficult to observe. For example, this could be the case where beneficiary cultural contexts are not well understood or where there is scarce evidence on what 'works'.

A second fundamental characteristic of consumer control is that it allows consumers to increase their market power by forming a coalition to purchase wholesale goods at a more competitive price than they would have faced individually. In other words, when consumers purchase in a monopolistic market, it is advantageous to replace these higher costs of individual contracting with the cost of ownership. A typical example of such context is the creation of consumer cooperatives to deliver utilities (see Birchall, 2012, for a review of historical examples).

Consumers can be very numerous, so it is tempting to think that consumer controlled firms may face the same collective decision-making obstacles discussed in the case of labour-management. There are reasons why such problems are likely to feature less prominently. Indeed, the size of the consumer control group is likely to be larger than in conventional capital-owned firms, which will give rise to problems of collective action and free riding. However, contrary to labour, consumption is not as geographically rooted and is divisible and diversifiable, such that we can expect consumers to optimally diversify their expenditure across purchasing channels (whether directly or via consumer-controlled firms). The consumer control groups of such firms are therefore likely to reflect homogenous preferences, minimising the need for costly bargaining within the firm.

The higher scope for diversification of consumption also has implications on the extent to which consumer-controlled firms are likely to have complementary preferences alongside profit-maximisation. Specifically, this discussion suggest that, compared to the broader set of potential

[8] Note the parallelism with the argument on non-profits in Section 4.2

concerns of labour-controllers, consumer-controllers may only give weight to the more narrow domain of product characteristics and the strength of their purchasing position.

Overall, we can therefore expect social enterprises that involve beneficiaries in management to be better placed to overcome informational difficulties in relation to the nature of the product or service being delivered. In particular, this arrangement can allow these firms to operate in markets that require a high degree of consumer trust or where consumer needs are only imperfectly known and/or understood. Furthermore, they may be expected to thrive in markets where the degree of monopoly or the absence of regulation would otherwise leave consumers vulnerable.

4.2 Non-profits and the distribution of residual earnings

In this Section, we turn to the special case where the control group imposes constraints or limitations to the distribution of surplus. This is the case of non-profit institutions, which form an important part of the social enterprise landscape. Despite what the name might suggest, many, though not all, non-profit firms will generate a surplus of revenue over operating costs. However, what distinguishes these from conventional firms is the fact that they are forbidden from distributing such surplus to those in control of the organisation (Hansmann, 2008). The asset lock, which prevents the assets of a company to be devolved for purposes other than the stated aims of a dissolving organisation, follows a similar logic.

A first strand of theorising on non-profit firms has emphasised how they can serve to provide public goods. Specifically, Weisbrod (1975) argues that some segments of the population may be unsatisfied with the level of public good provision by the State, as determined by the democratic process and hence the median voter. As such, entrepreneurs face the incentive to impose a non-distribution constraint by taking a non-profit form to capture this market segment (Bilodeau & Slivinski, 1998).

This is an instance of a more general mechanism whereby the non-distribution constraint helps correct market failures arising due to asymmetric information about product characteristics or quality (Hansmann, 2008). Specifically, where product quality cannot be ascertained ex-ante, the consumer cannot achieve full protection contractually, and recognises that a for-profit firm may seek to extract value for itself by delivering below the promised levels of quality. The non-distribution constraint, it is argued, eliminates such incentive, thereby providing greater protection for the consumer.

This mechanism is evidently at work in the case of donative non-profits (that is, organisations where donors pay for the firm to deliver services to target beneficiaries). It is nearly impossible for a donor to check whether a firm has actually provided vaccinations on the other side of the planet, and even more so to be sure that it was their donation that funded additional donations at the margin. In circumstances such as these, a non-profit organisation will be able to elicit more trust from potential donors.

The same mechanism may also affect commercial non-profits (that is, non-profit organisations which charge for their products and services). This may explain the prevalence of non-profit organisational forms among financial sector organisations before asymmetric information was substantially reduced via regulation (Hansmann, 1990; Birchall, 2012). Non-profit educational institutions constitute another example.

It is worth pointing out that non-profit firms do not necessarily need to rely, or need not rely exclusively, on the non-distribution constraint to inspire the necessary trust in consumers. This can also be achieved by trustees committing their reputation to the non-profit firm (Handy, 1995); through using lower wages to both attract committed managers and broadcast this to consumers (Handy & Katz, 1998); and by involving end-users in decision making (Ben-Ner, 1986).

Overall, therefore, we can interpret social enterprises adopting non-profit status as signalling and, importantly, *committing* to behaviour that departs from what would be expected by a conventional profit-maximising firm. This commitment is more likely to be relevant, and therefore to be made, by firms operating in markets where there is a high degree of information asymmetry on product quality and/or firm behaviour, and in markets involved in the production of public goods.

4.3 The social business purpose

The final feature put forward as identifying social enterprises is the presence of a *social* business purpose. A social business purpose is a *claim* to be operating in the interest of some social good instead of, or alongside, the search for profit. This can be made formally, perhaps in a firm's key legal documents, or informally, through its practices and communication strategy. Such feature may be understood as a public statement on the preferences of the control group (which we will assume is the suppliers of capital in the default case). In this section, we consider the circumstances in which we can expect such statements to be made, and what implications, if any, we can expect these to have on firm behaviour.

There exists an extended and consolidated literature on *corporate social responsibility* (CSR) (see Bnabou & Tirole, 2010; Kitzmueller & Shimshack, 2012; Crifo & Forget, 2014, for a review). While CSR and a 'social business purpose' are not coterminous, they both involve the private provision of public goods or the private voluntary redistribution of (part of) profits to social causes. We can therefore draw insights into the behaviour of a social enterprise identifying as such only on the basis of their social business purpose from the literature on CSR.

A number of circumstances can give rise to CSR. In the first instance, capital suppliers may hold genuine social preferences beyond profits and might be willing to entertain trade-offs between the two, much like we have seen in the case of control by labour or consumers. This has been referred to as *not for profit CSR* (Kitzmueller & Shimshack, 2012). However, the not for profit CSR hypothesis is not strongly supported by the data. The comprehensive meta-analysis in Margolis et al. (2009) finds that the relationship between social responsibility and financial performance is weak, but if anything, positive. CSR may therefore not come at the expense of profits.

Indeed, developing a positive social reputation may be thought as a *resource* (Wernerfelt, 1984). Moreover, being non-tradable and difficult to imitate, it is one that can sustain competitive advantage (Peteraf, 1993). In this context, CSR is by no means incompatible with profit maximisation. Quite the contrary, firms will engage in *strategic CSR* when the costs of doing so are outweighed by the benefits (Baron, 2001; McWilliams & Siegel, 2001; Kitzmueller & Shimshack, 2012). Such benefits can take the form of, for example, improved matching in the labour market; increased willingness to pay on behalf of socially-minded consumers; and preempting the detrimental consequences of public politics (regulation) and/or private politics (activists) on the firm's operations. Paper **??** finds evidence consistent with the hypothesis that firms that declare they are run 'primarily for social aims' may be doing so strategically.

Identifying such behaviour as *social enterprise* is likely to attract some skepticism from those who believe social enterprise should constitute a departure from business as usual. Indeed, under the strategic CSR hypothesis, the *social* is instrumental to profit. It is therefore not clear why such behaviour should be treated any differently from all other behaviours and strategies that are equally instrumental to profit. More fundamentally though, if CSR is merely a rational strategic response by a profit-maximising investor-controlled firm, then it is none other than a manifestation of conventional firm behaviour.

The discussion is further complicated by the fact that social reputations may be open to manipulation, as it is difficult to find a rigorous and objective framework within which to determine what constitutes a social purpose and what does not. Is producing toothbrushes less socially beneficial than helping migrants integrate? How social is it to hire ex-convicts to work in a restaurant and make profit from this? These questions cannot be answered without setting out criteria ex-ante, and there is no guarantee that such criteria will attract widespread agreement. Indeed, the social enterprise literature seems to suffer the consequences of this ambiguity: Cukier et al. (2011) analyse 567 unique articles on the topic and highlights clear inconsistencies in how and why some organisations are classified as social and why others, sometimes even in the same sector, are not. The implication of this is that because the notion of social performance is fuzzy, its true extent may be difficult to observe. In this context, even just an *appearance* of CSR rather than a genuine changed behaviour can be sufficient to improve profits (Calveras & Ganuza, 2014). As such, CSR may not even imply a conventional firm making profits by doing good, but may actually imply a conventional firm making profits by *pretending* to do good.

Overall, therefore, there is a significant degree of arbitrariness in what is and isn't considered social and there are reasons to suspect that seeking to be perceived as social may simply be a strategic response to circumstances in which a social reputation delivers a competitive advantage. The current state of knowledge therefore suggests at least a good degree of scepticism as to whether declaring a social purpose has any substantive implications on firm behaviour.[9]

4.4 Discussion

The above review of the nature and implications of the institutional features commonly found among social enterprises was intended to verify if these features, although distinct, could nevertheless be expected to lead to some form of common behaviour. Here, we summarise the key highlights from this review and draw some conclusions.

The review indicated how, compared to capital suppliers, the specific asymmetries exhibited by labour and by consumers have the potential to drive the firm toward objectives that go beyond profit. However, these objectives are likely to be different in the two cases. They are likely to relate to the employment and workplace conditions or the immediate locality in the case of workers, and relate to the nature of the product in the case of consumers. On the other hand, we discuss how a firm declaring a social business purpose may, in many cases, be doing so as instrumental to profit maximisation. Ultimately, this is the behaviour we would expect of a conventional firm. In this context, the verifiability and credibility of the social commitment becomes a crucial parameter in determining whether a declared social purpose actually translates into social impact. As we discuss, the non-distribution constraint found among non-profit firms can be seen as a commitment mechanism addressing precisely this informational asymmetry.

This brief summary is sufficient to identify some common themes that recur across the different institutional features considered. Firstly, the potential for the firm to pursue objectives that go beyond profit is ultimately driven by the preferences of the control group, and this cuts across all types of firms considered. This statement is tautological, tantamount to saying that the firm does what the controllers want. Importantly, however, our discussion suggests that the motivation and incentive to pursue social objectives will be different across patron types. The behaviour of the firm will be a relevant consideration across a greater number of domains of

[9]Nevertheless, a stated social purpose may be a useful governance feature if set alongside the other characteristics discussed in this paper. For example, specifying a social objective can strengthen the capacity of a non-profit to elicit consumer trust. Alternatively, a labour-managed firm may use a stated social purpose as a signalling and sorting device for potential workers, thereby improving preference homogeneity. It is therefore not surprising that many social enterprises exhibit more than one of the three main characteristics considered.

life for workers than for consumers, and for consumers than for capital suppliers. Additionally, the scope for decoupling social concerns from engagement within the firm also differs across patron types. Workers cannot decouple the choice between a production technology and local air quality. Instead, socially motivated investors may be able to achieve the same utility by investing purely for financial reward and donating for the social purpose.[10] These two considerations may arguably be seen as defining a hierarchy in the social potential across the different patron types.

A second recurring theme relates to the importance of the credibility and verifiability of a firm's social performance in discriminating conventional firms from those that genuinely depart from such behaviour. Our discussion indicates that governance features, notably the non-distribution constraint, have an important role to play. It also suggests there may be an important role for transparency and rigorous social impact measurement. Perhaps social enterprises should not be identified on the basis of what they are institutionally, nor for what they do or claim they do, but for the *impact* they actually achieve.

Setting these few cross-cutting topics aside however, the outcome of this review indicates quite evidently how the institutional features considered are in fact largely unrelated, save for the (trivial) fact they (may) constitute some departure from the conventional firm. Ultimately, our review finds that these features do not determine any common theoretical predictions or empirical regularities that would apply to all variants of social enterprise. Therefore, not only does *social enterprise* not define a specific institutional form, but we find no evidence indicating that firms exhibiting any of the features commonly found among social enterprises should be expected to share any common behaviour.

5 Conclusion

The term social enterprise is increasingly common, but ultimately no two such firms look very much alike. This paper is motivated by the desire to understand whether, despite this large heterogeneity, social enterprises can be conceptualised as a unitary phenomenon. In particular, it sought to scrutinise whether social enterprises should be expected to exhibit common institutional features or behaviours.

The paper started by providing a brief review of existing attempts define social enterprises as manifesting a set of shared institutional characteristics. It soon concluded that a universal characterisation is not possible. Indeed, social enterprise research has increasingly moved away from seeking a unified institutional characterisation of the phenomenon and moved towards theorising such firms as exhibiting combination of possible defining characteristics. We identify the most commonly-cited such features of social enterprise as: a) a degree of inclusive, participatory or democratic governance, b) conditions or limitations on the distribution and/or reinvestment of surplus and c) a *social* business purpose.

Subsequently, the paper considered whether these institutional features, even if distinct, may somehow exert the same type of influence on the firm's nature and behaviour. If so, while failing to arrive at an institutional definition, we could at least arrive at a behavioural definition of social enterprise. The core of the paper therefore presented a critical review of the economics and management literature on the nature and implications of the three above-mentioned most common institutional features found among social enterprises.

[10] Bnabou & Tirole (2010) offer some possible explanations as to why it can still be more efficient to pursue social objectives within the context of the firm's operations. Indeed, social motivations will often relate to undoing the detrimental consequences of corporate behaviour driven exclusively by profit-seeking, such as pollution or worker exploitation. An external organisation will therefore face higher transaction and informational costs in doing so than the corporate firm itself. Moreover, the corporate firm may have some operational advantages in delivering social benefits, for example by using an extensive distribution chain to deliver vaccinations.

The outcome of this exercise has confirmed the challenging nature of the topic. We conclude that, much like the heterogeneity in the actual business landscape of the social economy, theoretical thinking around this sector appears to have at best identified a loose set of institutional features that are found among such firms. Moreover, as emerges from the discussion in this paper, these features do not appear to imply any behavioural commonalities.

The discussion presented in this paper suggests that the notion of *social enterprise* does not in fact define a unitary phenomenon, whether institutionally or behaviourally. We therefore question what meaning, if any, is conveyed by a claim to *be* a social enterprise. For this same reason, we also argue that the term *social enterprise* is not a particularly useful one, at least for the purposes of theorising on the subject. Rather than attempting to use an overarching notion of social enterprise, research would benefit from isolating its three main features (democratic governance; non-profit status; and corporate social responsibility) and focus on these separately.[11] As we have seen, each of these can be defined more precisely and can therefore be studied with greater focus and coherence.

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[11] See Paper **??** for an example.

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